

**SUMMARY OF THE REGULAR MEETING OF THE  
ARIZONA STATE RETIREMENT SYSTEM  
OPERATIONS COMMITTEE**

**HELD ON  
Thursday, July 21, 2005  
10:30 a.m., MST**

The Operations Committee (OC) of the Arizona State Retirement System (ASRS) met in regular session in the 14<sup>th</sup> Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Michael Townsend, Chair, called the meeting to order at 10:30 a.m.

This meeting was teleconferenced to the ASRS Tucson office at 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present:       Mr. Michael Townsend, Chair  
                  Mr. Steven Zeman, Vice-Chair  
                  Mr. Dave Byers  
                  Dr. Keith Meredith

A quorum of the Committee was present for the purpose of conducting business.

**2. Presentation, Discussion and Appropriate Action Regarding Budget Requests for FY 07**

Mr. Guarino, Deputy Director, Chief Operations Officer, presented a recap of the outcome of the budget for fiscal year 2006 stating that the budget appropriation is adequate. Citing positive items including \$245,000 for temporary staff, 50% of requested FTEs, and the continued funding of operating costs associated with the IT Plan, totaling approximately \$2.8 million, Mr. Guarino indicated that the ASRS budget is sufficient for the coming year.

Mr. Guarino opened a discussion of the FY 2007 budget with a focus on the 10 FTEs for the Financial Services Division (FSD), 5 FTEs for the Member Services Division (MSD), 4 FTEs for the Administrative Services Division (ASD) and 1 FTE for the Information Services Division. Mr. David Byers asked if the FTEs approved for FY 07 represented the FTEs not approved in the 06 budget to which Mr. Guarino responded in the affirmative with the exception of two of the

four FTEs for the Administrative Services Division. Mr. Guarino added that if the 07 budget is approved, this will represent the last substantial request for an increase, with regard to FTEs, in the foreseeable future. Mr. Guarino added that the bottom line for this FY 07 request; if you were to add it to the dollars appropriated for FY 06; the total for the two years is less by approximately \$1.1 million from the previous two-year request presented last year to the committee. Mr. Townsend asked if the \$245,000 budget for temporary staff was part of the ongoing FY 2007 budget. Ms. Rozen, Chief of Administrative Services, responded that the temporary staff line is included in the budget, and while that amount funds about 10 temporary employees, the agency currently has 20 contracted. Mr. Guarino added that with the addition of FTEs, the objective is to reduce the number of temporary employees to the 10 that are appropriated.

Mr. Guarino stated that the ASRS is requesting approval of a \$2,897,700 budget for LTD, representing no increase over the appropriation for FY 2006. Mr. Guarino explained the breakdown of the LTD budget, and Ms. Rozen added that since FY 07 is a new contract year, it is possible to see an increase or a decrease if there were a change in vendors. Additionally, if there is a change in vendors, it is likely that service would overlap and that associated costs would be incurred. Also, if there were a change, it is possible there would be costs associated with data transmission from one vendor to another; however, the budget appears to be sufficient.

The Information Technology (IT) Plan budget was discussed and staff recommendations outlined. Ms. Rozen explained that last year, the operational costs for the IT Plan were imbedded in the operations budget; however the appropriations for the related FTEs are included in the special line for the IT Appropriations. The request for FY 07 does not represent an increase in funding. Mr. Kent Smith, Assistant Director, Information Services, presented a brief explanation of each line item in the IT Plan budget and Mr. Guarino summarized by stating the original budget, the expenditures to date and the remaining budgeted amount for continued development.

Ms. Nancy Linssen, Assistant Director, Financial Services, presented an overview of the budget request for 10 additional FTEs for FSD (2 for General Accounting, 2 for Membership Accounting and 6 for Benefits Accounting). A reduction in the number of FTEs requested in the 2006 budget (17 requested in 2006) is the result of a decrease in three-year historical annual percentage increase in new retirees. The percentage increase has decreased from 24% to 11%. It is intended that these FTEs replace temporary employees where possible.

Mr. Raymond Thomas, Assistant Director, Member Services, addressed the committee concerning MSD and the request for additional Call Center staff. As projected, call volume continues to steadily increase and staffing levels have not been sufficient to keep pace with this increase and as a result, service has declined. Accordingly, staff is recommending the addition of 4 new call center benefit advisors and 1 new research benefit advisor.

Mr. Smith spoke to the need for additional funds to provide network security and indicated that he recently began a process to contract with a state-approved vendor for daily collection of system backup information to be stored offsite. Mr. Byers pointed out that the potential for

internal security breach is great and that it should be addressed. Mr. Glick, Chief Internal Auditor stated that this issue is addressed in the audit plan.

Mr. Guarino reviewed the staff recommendation to add 1 FTE for budget control and development and 1 FTE to provide Administrative Support in the Administrative Services Division (ASD) and 2 FTEs for technical writing policies and training in ASD. Mr. Guarino indicated that it is critical to update and continually maintain desk procedures and suggests that technical writers/trainers are needed to compose and maintain the 200 to 500 desk procedures that are currently needed.

Ms. Rozen reviewed the agency-wide expenses request which includes \$306,400 in personal services dollars needed to fund the current base salaries with an assumed 4% vacancy factor and \$153,900 for replacement equipment.

**Motion:** Mr. Steven Zeman moved to approve and submit to the Board for approval the recommendations of staff with regard to the budget for fiscal year 2007.

Dr. Keith Meredith seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions and 0 absent, the motion was passed.

### **3. Presentation, Discussion and Appropriate Action Regarding the Director's Information Technology (IT) Review**

Mr. Bob Solheim a consultant with the firm Provaliant presented his assessment of the IT Plan. Provaliant has completed its independent assessment of the IT Plan and affirms management's view that serious concerns raised about this critical agency-wide effort were unfounded. Legislative changes and vendor product abandonment have delayed the project but have not affected the overall anticipated cost of the IT Plan.

Mr. Solheim conveyed that Provaliant has recommended the use of an independent advisory consultant (IAC) to monitor Plan progress; to have solution experts available for major implementation efforts related to data base applications, workflow, imaging and financial management; and to maintain a project management and reporting structure that provides a view of the Plan's status, issues and risk.

Mr. Paul Matson, Director, added that decision making with regard to the IT Plan would be put on hold until a new IAC is in place and assured the Operations Committee of quarterly IT updates.

### **4. Presentation, Discussion and Appropriate Action Regarding Recently Conducted Audits**

Mr. Bernard Glick addressed the committee regarding the audit of the Arizona Department of Veterans Services. Mr. Glick reviewed the findings of the audit and briefly discussed the reporting violations that had been discovered. In summary, the infractions were minor and the

Arizona Department of Veterans Services responded positively, concurred with the findings and agreed to implement the recommended procedures.

**5. Presentation, Discussion and Appropriate Action Regarding Dental Provider Contract**

**Motion:** Mr. Steven Zeman moved to go into executive session to discuss the Retiree Dental Benefits Request for Proposal.

Dr. Keith Meredith seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions and 0 absent, the motion was passed.

The Operations Committee convened to executive session at 11:52 a.m.

The Operations Committee reconvened regular session at 12:00 p.m.

**Motion:** Mr. Steven Zeman moved to approve and submit to the Board for approval the recommendation of the Evaluation Committee for the Retiree Dental Benefits Request for Proposal.

Mr. David Byers seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions and 0 absent, the motion was passed.

**6. Committee Trustee Requests for Agenda Items**

None

**7. Call to the Public**

No members of the public addressed the Committee.

**8. Adjournment of the OC**

Mr. Michael Townsend adjourned the meeting at 12:05 p.m.

Respectfully Submitted by,

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Gayle Norman  
Committee Secretary

Date

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Anthony Guarino  
Deputy Director, Chief Operations Officer

Date